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CARRAMERICA REALTY CORP
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED September 30, 2001

COMMISSION FILE NO. 1-11706

CARRAMERICA REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

52-1796339

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification
Number)

1850 K Street, N.W., Washington, D.C. 20006

(Address or principal executive office) (Zip code)

Registrant's telephone number, including area code (202) 729-1000

N/A

(Former name, former address and former fiscal year, if changed since last
report)

Number of shares outstanding of each of the registrant's
classes of common stock, as of November 2, 2001:

Common Stock, par value \$.01 per share: 61,101,945 shares

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding twelve (12) months (or such shorter period that the Registrant was
required to file such reports) and (2) has been subject to such filing
requirements for the past ninety (90) days.

YES X NO _____

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Part I: Financial Information

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Consolidated statements of operations of CarrAmerica Realty Corporation and subsidiaries for the three months and nine months ended September 30, 2001 and 2000 (unaudited).....

Consolidated statements of cash flows of CarrAmerica Realty Corporation and subsidiaries for the nine months ended September 30, 2001 and 2000 (unaudited).....

Notes to consolidated financial statements (unaudited).....

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Part I

Item 1. Financial Information

The information furnished in our accompanying consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows reflect all adjustments which are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim periods.

The financial statements should be read in conjunction with the notes to the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our December 31, 2000 Annual Report on Form 10-K. The results of operations for the nine months ended September 30, 2001 are not necessarily indicative of the operating results to be expected for the full year.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
 Consolidated Balance Sheets As Of September 30, 2001 and December 31, 2000

(In thousands, except share amounts)	September 30, 2001
	----- (unaudited)
Assets	

Rental property:	
Land	\$ 648,171
Buildings	1,851,016
Tenant improvements	351,642
Furniture, fixtures and equipment	3,705

	2,854,534
Less: Accumulated depreciation	(450,661)

Total rental property	2,403,873
Land held for development or sale	45,311
Construction in progress	14,185
Cash and cash equivalents	8,831
Restricted deposits	5,083
Accounts and notes receivable	31,127
Investments in unconsolidated entities	156,382
Accrued straight-line rents	63,073
Tenant leasing costs, net	53,163
Deferred financing costs, net	9,088
Prepaid expenses and other assets, net	34,395

	\$ 2,824,511
	=====
Liabilities, Minority Interest, and Stockholders' Equity	

Liabilities:	
Mortgages and notes payable	\$ 1,111,239
Accounts payable and accrued expenses	69,967
Rents received in advance and security deposits	26,378

Total liabilities	1,207,584
Minority interest	84,433
Stockholders' equity:	
Preferred stock, \$.01 par value, authorized 35,000,000 shares:	
Series A Cumulative Convertible Redeemable Preferred Stock, 80,000 and 480,000 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively, with an aggregate liquidation preference of \$2,000 and \$12,000 respectively.	1
Series B, C, and D Cumulative Redeemable Preferred Stock, 8,800,000 shares issued and outstanding with an aggregate	

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liquidation preference of \$400,000.		88
Common Stock, \$.01 par value, authorized 180,000,000 shares issued and outstanding 62,487,942 shares at September 30, 2001 and 65,017,623 shares at December 31, 2000.		625
Additional paid-in capital		1,663,851
Cumulative dividends in excess of net income		(132,071)

Total stockholders' equity		1,532,494

Commitments and contingencies		\$ 2,824,511
		=====

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Three Months Ended September 30, 2001 and 2000

		2001

Operating revenues:		
Rental revenue:		
Minimum base rent		\$ 108,127
Recoveries from tenants		14,715
Parking and other tenant charges		3,920

Total rental revenue		126,762
Real estate service revenue		6,682

Total operating revenues		133,444

Operating expenses:		
Property expenses:		
Operating expenses		30,158
Real estate taxes		8,760
Interest expense		20,091
General and administrative		10,844
Depreciation and amortization		33,077

Total operating expenses		102,930

Real estate operating income		30,514

Other income:		
Interest income		641
Equity in earnings of unconsolidated entities		1,229

Total other income		1,870

Income before income taxes, minority interest, and gain on sale of assets and other provisions, net		32,384

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Income taxes	(713)
Minority interest	(2,755)
Gain on sale of assets and other provisions, net	28
Net income	\$ 28,944
Basic net income per common share	\$ 0.33
Diluted net income per common share	\$ 0.32

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Nine Months Ended September 30, 2001 and 2000

(Unaudited and in thousands, except per share amounts)	2001
Operating revenues:	
Rental revenue:	
Minimum base rent	\$ 320,139
Recoveries from tenants	43,439
Parking and other tenant charges	10,796
Total rental revenue	374,374
Real estate service revenue	26,522
Total operating revenues	400,896
Operating expenses:	
Property expenses:	
Operating expenses	90,632
Real estate taxes	28,377
Interest expense	62,087
General and administrative	37,184
Depreciation and amortization	94,722
Total operating expenses	313,002
Real estate operating income	87,894
Other income:	
Interest income	2,768
Equity in earnings of unconsolidated entities	8,257
Total other income	11,025
Income from continuing operations before income taxes, minority interest, and gain on sale of assets and other provisions, net	98,919

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Income taxes	(947)
Minority interest	(7,284)
Gain on sale of assets and other provisions, net	1,082

Income from continuing operations	91,770
Discontinued operations - Income from executive suites operations (net of applicable income tax expense of \$1,300)	-
Discontinued operations - Gain on sale of discontinued operations (net of applicable income tax expense of \$21,131)	-

Net income	\$ 91,770
	=====
Basic net income per common share:	
Income from continuing operations	\$ 1.05
Discontinued operations	-
Gain on sale of discontinued operations	-

Net income	\$ 1.05
	=====
Diluted net income per common share:	
Income from continuing operations	\$ 1.03
Discontinued operations	-
Gain on sale of discontinued operations	-

Net income	\$ 1.03
	=====

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2001 and 2000

(Unaudited and in thousands)

	2001

Cash flows from operating activities:	
Net income	\$ 9
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	9
Minority interest	
Equity in earnings of unconsolidated entities	(
Gain on sale of assets and other provisions, net	(
Income and gain on sale of discontinued operations	
Provision for uncollectible accounts	
Stock based compensation	
Other	
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	1
Increase in accrued straight-line rents	(
Additions to tenant leasing costs	(
Increase in prepaid expenses and other assets	(1
Decrease in accounts payable and accrued expenses	(2

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(Decrease) increase in rent received in advance and security deposits		(
		5
Total adjustments		14
		14
Cash flows from investing activities:		
Acquisition and development of rental property		(3)
Additions to land held for development or sale		(3)
Additions to construction in progress		(2)
Acquisition and development of executive suites assets		1
Payments on notes receivable		8
Issuance of notes receivable		(1)
Distributions from unconsolidated entities		(3)
Investments in unconsolidated entities		(
Acquisition of minority interest		3
Decrease (increase) in restricted deposits		10
Proceeds from the sale of discontinued operations		12
Proceeds from sales of properties		12
		12
Net cash provided by investing activities		12
		12
Cash flows from financing activities:		
Repurchase of common stock		(11)
Exercises of stock options		2
Net repayments on unsecured credit facility (including \$140,500 related to discontinued operations in 2000)		(6)
Payment of senior unsecured notes		(3)
Repayments of mortgages payable (including \$14,449 related to discontinued operations in 2000)		2
Proceeds from mortgages		(12)
Dividends and distributions to minority interests		(28)
Contributions from minority interests		(1)
		2
Net cash used by financing activities		2
		2
Decrease in cash and cash equivalents		\$
Cash and cash equivalents, beginning of the period		\$
Cash and cash equivalents, end of the period		\$
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of capitalized interest of \$4,383 and \$10,046 for the nine months ended September 30, 2001 and 2000, respectively)		\$ 6
		\$ 2
Cash paid for income taxes		\$ 2
		\$ 2

See accompanying notes to consolidated financial statements

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

-
- (1) Description of Business and Summary of Significant Accounting Policies
- (a) Business

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We are a fully integrated, self-administered and self-managed publicly traded real estate investment trust ("REIT"), organized under the laws of Maryland. We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected suburban markets across the United States.

(b) Basis of Presentation

Our accounts and those of our majority-owned/controlled subsidiaries and affiliates are consolidated in the financial statements. We use the equity or cost methods, as appropriate in the circumstances, to account for our investments in and our share of the earnings or losses of unconsolidated entities. These entities are not majority owned or controlled by us.

Management has made estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, and the disclosure of contingent assets and liabilities. Estimates are required in order for us to prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates are required in a number of areas, including the evaluation of impairment of long-lived assets, determination of useful lives of assets subject to depreciation or amortization and evaluation of the collectibility of accounts and notes receivable. Actual results could differ from these estimates.

(c) Interim Financial Statements

The financial statements reflect all adjustments, which are, in our opinion, necessary to reflect a fair presentation of the results for the interim periods, and all adjustments are of a normal, recurring nature.

(d) New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We adopted this statement as of January 1, 2001 and the adoption had no effect on our financial statements. We had no derivative instruments as of September 30, 2001.

In June 2000, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 2001. SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite useful lives from an amortization approach to an impairment-only approach. We believe that the adoption of SFAS No. 142 in January 2002 will not have a material effect on our financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for

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the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of Opinion No. 30 to report separately discontinued operations but extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in distribution to owners) or is classified as held for sale. We believe that adoption of this statement in 2002 will not have a material effect on our financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(e) Earnings Per Share

The following table sets forth information relating to the computations of our basic and diluted earnings per share for income from continuing operations:

(In thousands, except per share amounts)	Three Months Ended September 30, 2001			Thre Sep
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
Basic EPS	\$ 20,289	62,266	\$ 0.33	\$ 41,068
Effect of Dilutive Securities				
Stock options	-	1,612		-
Convertible preferred stock	-	-		224
Stock units	-	-		3,622
Diluted EPS	\$ 20,289	63,878	\$ 0.32	\$ 44,914

Income from continuing operations has been reduced by preferred stock dividends of approximately \$8,655,000 and approximately \$8,842,000 for the three months ended September 30, 2001 and 2000, respectively.

Nine Months Ended
September 30, 2001

Nine
Sept

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(In thousands, except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
	-----	-----	-----	-----
Basic EPS	\$ 65,720	62,403	\$ 1.05	\$ 86,523
			=====	
Effect of Dilutive Securities				
Stock options	-	1,451		-
	-----	-----	-----	-----
Diluted EPS	\$ 65,720	63,854	\$ 1.03	\$ 86,523
	=====	=====	=====	=====

Income from continuing operations has been reduced by preferred stock dividends of approximately \$26,050,000 and approximately \$26,364,000 for the six months ended September 30, 2001 and 2000, respectively.

The effects of convertible units in CarrAmerica Realty, L.P. and Carr Realty, L.P. and Series A Convertible Preferred Stock are not included in the computation of diluted earnings per share for the periods in which their effect is antidilutive.

(f) Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current period's presentation.

(3) Discontinued Operations

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine Capital Group ("FrontLine"), entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interest in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. On June 1, 2000, we consummated the transactions.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

As part of the HQ Global/VANTAS transactions, we received put rights with respect to our continuing interest in HQ Global. These rights can be exercised at specified times at our option if HQ Global has not completed an initial public offering. A portion of the put is exercisable in late 2001, with the balance exercisable in June 2002. Payment for our HQ Global stock will be based on the fair market value of our investment and can be made either in cash, a short-term note (in case of the 2001 put right) or delivery of common stock of FrontLine, a NASDAQ-listed company and the majority shareholder of HQ Global. We do not intend to exercise our eligible put right in 2001.

FrontLine, the majority stockholder of HQ Global, recently announced that HQ is in default with respect to certain covenant and payment obligations under its senior and mezzanine indebtedness. FrontLine also

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reported that, effective as of October 1, 2001, HQ Global entered into an agreement with its senior loan lenders under which these lenders agreed not to enforce the remedies they now have as a result of HQ Global's default. This forbearance period is scheduled to terminate on December 14, 2001, or earlier under certain circumstances (including the termination, if earlier, of the forbearance period relating to HQ's mezzanine indebtedness which is scheduled to terminate no later than December 31, 2001). During this period, HQ Global can still draw funds under the senior credit agreement for working capital needs and to make interest payments to these lenders. At the end of the forbearance period, if HQ Global has not paid in full all amounts due and owing to the lenders, or if HQ has not cured all of its existing defaults, then the lenders may immediately exercise any rights and remedies available to them.

HQ Global is in active negotiations with its lenders regarding the restructuring of its long-term indebtedness, with an objective of reaching an agreement on terms that will provide HQ Global with sufficient liquidity to operate its business through the current economic downturn. There can be no assurance that HQ Global will be able to restructure its indebtedness. Depending on the outcome of HQ Global's discussions with its lenders, we may be required to write-off some or all of our remaining \$42.2 million investment in HQ Global.

(4) Gain on Sale of Assets and Other Provisions, Net

We dispose of assets that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. During the three months ended September 30, 2001, we disposed of a parcel of land held for development. During the three months ended September 30, 2000, we disposed of one operating property, exclusive of the properties contributed to Carr Office Park, L.L.C. We recognized a gain of \$0.1 million, net of \$0.8 million in income taxes on this property.

On August 17, 2000, we closed on a joint venture with New York State Teachers' Retirement System ("NYSTRS"). At closing, we and some of our affiliates contributed properties to the joint venture, Carr Office Park, L.L.C., and NYSTRS contributed cash. We recognized a gain on the partial sale of approximately \$20.1 million, net of income taxes of \$13.1 million.

During the nine months ended September 30, 2001, we disposed of seven operating properties, one property under development and three parcels of land held for development. We recognized a gain of \$4.0 million, net of taxes of \$2.0 million. We also recognized an impairment loss of \$0.9 million on a parcel of land held for development during the nine months ended September 30, 2001. During the nine months ended September 30, 2000, we disposed of six operating properties exclusive of properties contributed to Carr Office Park, L.L.C. We recognized a gain of \$7.8 million, net of taxes of \$1.3 million, on these properties.

(5) Segment Information

Our reportable operating segments are real estate property operations and development operations. Other business activities and operating segments that are not reportable are included in other operations. The real estate property operations segment includes the operation and management of rental properties. The development operations segment includes the development of new rental properties for us and for unaffiliated companies. Our reportable segments offer different products and services and are managed separately because each requires

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different business strategies and management expertise.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

- * Net income (loss) - computed in accordance with generally accepted accounting principles (GAAP);
- * Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
- * Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- * Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

Operating results of our reportable segments and our other operations for the three and nine months ended September 30, 2001 and 2000 are summarized and reconciled to net income for the applicable period as follows:

(In millions)	For the three months ended September 30, 2001			
	Real Estate Property Operations	Development Operations	Other Operations	To
Operating revenue	\$ 126.8	1.8	4.8	\$
Segment expense	38.9	1.4	9.5	
Net segment revenue (expense)	87.9	0.4	(4.7)	
Interest expense	11.0	-	9.1	
Other income (expense), net	3.7	-	(1.7)	
Funds from operations	\$ 80.6	0.4	(15.5)	
Depreciation and amortization				
Income from continuing operations before minority interest and loss on sale of assets and other provisions, net				
Minority interest and loss on sale of assets and other provisions, net				
Net income				\$

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 (Unaudited)

(In millions)	For the three months ended September 30, 2000			
	Real Estate Property Operations	Development Operations	Other Operations	Tot
Operating revenue	\$ 131.7	3.0	4.7	\$
Segment expense	39.8	1.5	10.7	
Net segment revenue (expense)	91.9	1.5	(6.0)	
Interest expense	12.8	-	12.0	
Other income (expense), net	3.3	-	(0.9)	
Funds from operations	\$ 82.4	1.5	(18.9)	
Depreciation and amortization				
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net				
Minority interest and gain on sale of assets and other provisions, net				
Net income				\$

(In millions)	For the nine months ended September 30, 2001			
	Real Estate Property Operations	Development Operations	Other Operations	Tot
Operating revenue	\$ 374.4	12.6	13.9	\$
Segment expense	119.0	4.0	33.2	
Net segment revenue (expense)	255.4	8.6	(19.3)	
Interest expense	33.4	-	28.7	
Other income (expense), net	16.1	0.3	(3.1)	
Funds from operations	\$ 238.1	8.9	(51.1)	
Depreciation and amortization				
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net				
Minority interest and gain on sale of assets and other provisions, net				
Net income				\$

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(In millions)	For the nine months ended September 30,		
	Real Estate Property Operations	Development Operations	Other Operations
Operating revenue	\$ 407.4	7.0	11.0
Segment expense	128.5	3.9	29.6
Net segment revenue (expense)	278.9	3.1	(18.6)
Interest expense	37.7	-	39.1
Other income (expense), net	8.4	-	(4.0)
Funds from operations	\$ 249.6	3.1	(61.7)
Depreciation and amortization			
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net			
Minority interest and gain on sale of assets and other provisions, net			
Discontinued operations, net of applicable income tax expense			
Gain on sale of discontinued operations, net of applicable income tax expense			
Net income			

(6) Supplemental Cash Flow Information

In April 2001, we exercised an option under a loan agreement to acquire two office buildings and related land located in the San Francisco Bay area. For financial reporting purposes, we had classified the loan as an investment in an unconsolidated entity and accounted for it using the equity method. The investment, which had a carrying value of approximately \$50.3 million at the date the option was exercised, was reclassified to rental property in connection with this transaction.

On June 29, 2001, we contributed land subject to a note payable of approximately \$26.0 million to a joint venture in exchange for a 30% ownership interest. Our initial investment in the joint venture amounted to \$7.3 million, the net book value of the asset and liability contributed.

In the second quarter of 2001, 400,000 shares of our Series A Cumulative Convertible Redeemable Preferred Stock were converted to shares of common stock.

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Independent Accountants' Review Report

The Board of Directors and Stockholders
CarrAmerica Realty Corporation:

We have reviewed the condensed consolidated balance sheet of CarrAmerica Realty Corporation and subsidiaries as of September 30, 2001, the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2001 and 2000, and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2001 and 2000. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 2, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/KPMG LLP

Washington, D.C.
October 25, 2001

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Management's Discussion and Analysis

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion that follows is based primarily on our consolidated financial statements as of September 30, 2001 and December 31, 2000 and for the three months and nine months ended September 30, 2001 and 2000 and should be read along with the consolidated financial statements and related notes. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and

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dispositions made during those periods.

The discussion and analysis of operating results focuses on our segments as management believes that segment analysis provides the most effective means of understanding the business. Our reportable operating segments are real estate property operations and development operations. Other business activities and operations, which are not reported separately, are included in other operations. Executive office suites operations are presented as discontinued operations in our financial statements.

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

- * Net income (loss) - computed in accordance with generally accepted accounting principles (GAAP);
- * Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
- * Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- * Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

RESULTS OF OPERATIONS

Real Estate Property Operations

Operating results of real estate property operations are summarized as follows:

(in millions)	For the three months ended		Variance	For the nine months	
	September 30,		2001 vs.	September 30,	
	2001	2000	2000	2001	2000
Operating revenue	\$ 126.8	\$ 131.7	\$ (4.9)	\$ 374.4	\$ 379.3
Segment expense	38.9	39.8	(0.9)	119.0	120.0
Interest expense	11.0	12.8	(1.8)	33.4	35.2
Other income, net	3.7	3.3	0.4	16.1	15.7

Real estate operating revenues decreased \$4.9 million (3.7%) for the three months ended September 30, 2001 as compared to 2000. This decrease resulted from the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., a joint venture in which we have a 35% interest. The decrease in revenues was partially offset by development properties being placed in service and "same store" rental growth. Same store rental revenues grew by approximately 4.7% (approximately \$5.0 million). This increase was due primarily to an increase in average rental rates in properties in the Northern California market and improved occupancy in

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properties in the Washington, D.C. market.

Real estate operating revenues decreased \$33.0 million (8.1%) for the nine months ended September 30, 2001 as compared to 2000. This decrease also was attributable to dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by development properties placed in service and "same store" rental growth. Same store rental revenues grew by approximately 4.2% (approximately \$13.1 million). This increase was due primarily to an increase in average rental rates in properties in the Northern California market.

Real estate operating expenses decreased \$0.9 million (2.3%) for the third quarter of 2001 as compared to the same period in 2000. This decrease was due primarily to the dispositions of interests in properties, including the properties

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Management's Discussion and Analysis

contributed to Carr Office Park, L.L.C., partially offset by an increase in same store operating expenses of approximately \$3.5 million (9.9%).

Real estate operating expenses decreased \$9.5 million (7.4%) for the first nine months 2001 as compared to the same period in 2000. This decrease was also due primarily to the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by an increase in same store operating expenses of approximately \$8.1 million (8.4%). The increase in expenses includes an increase in the provision for uncollectible accounts of approximately \$4.7 million due to tenant bankruptcies and collection issues.

Real estate interest expense decreased \$1.8 million (14.1%) in the third quarter of 2001 as compared to the same period in 2000. This decrease was principally the result of the retirement of mortgages following certain property dispositions and maturing mortgages.

Real estate interest expense decreased \$4.3 million (11.4%) for the first nine months of 2001 as compared to the first nine months of 2000. This decrease was principally the result of the retirement of mortgages following certain property dispositions.

Real estate other income increased \$0.4 million (12.1%) for the three months ended September 30, 2001 as compared to the three months ended September 30, 2000. This increase was primarily the result of equity in earnings of unconsolidated entities (excluding depreciation), primarily from the investment in Carr Office Park, L.L.C. For the nine months ended September 30, 2001, real estate other income increased \$7.7 million (91.7%) for the same reason.

As a result of the deteriorating economic climate, the real estate markets have materially softened over the first three quarters of 2001. Demand for office space has declined significantly and vacancy rates have increased in each of our core markets except for downtown Washington, D.C. As a result, occupancy in our portfolio of operating properties decreased to 95.9% at September 30, 2001, as compared to 97.2% at June 30, 2001. While market rental rates have declined somewhat in most markets from peak levels, rental rates on space that was re-leased in the third quarter of 2001 increased an average of 9.5% over rates that were in effect under expiring leases.

We expect vacancy rates to continue to increase in most of our markets

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through the balance of the year due to expected weak demand. As a result, we expect occupancy levels in our portfolio to decline to approximately 95.0% by the end of 2001. We do not expect the softened market conditions to have a material adverse affect on our operating results for the remainder of 2001. We expect that real estate markets will remain soft throughout 2002. As a result of the soft market, we anticipate that occupancy levels will remain at the projected 2001 year-end level through 2002.

Development Operations

Operating results of development operations are summarized as follows:

(in millions)	For the three months ended		Variance	For the nine months	
	September 30,		2001 vs.	September	
	2001	2000	2000	2001	2000
Operating revenue	\$ 1.8	\$ 3.0	\$ (1.2)	\$ 12.6	\$ 12.6
Segment expense	1.4	1.5	(0.1)	4.0	4.0
Interest expense	-	-	-	-	-
Other income, net	-	-	-	0.3	0.3

Revenue from our development operations decreased \$1.2 million (40.0%) for the third quarter of 2001 compared to the third quarter of 2000 primarily because we earned an incentive fee related to the development of a property during the third quarter of 2000. Revenues from development operations increased \$5.6 million (80.0%) for the first nine months of 2001 compared to the same period a year ago. This increase reflects our expanded operations in this area, including services provided to Carr Office Park, L.L.C. and other unconsolidated joint ventures in connection with their development of new properties.

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Management's Discussion and Analysis

Other Operations

Operating results of other operations are summarized as follows:

(in millions)	For the three months ended		Variance	For the nine months	
	September 30,		2001 vs.	September 30,	
	2001	2000	2000	2001	2000
Operating revenue	\$ 4.8	\$ 4.7	\$ 0.1	\$ 13.9	\$ 13.9
Segment expense	9.5	10.7	(1.2)	33.2	33.2
Interest expense	9.1	12.0	(2.9)	28.7	28.7
Other (expense) income, net	(1.7)	(0.9)	(0.8)	(3.1)	(3.1)

Revenues from our other operations increased \$0.1 million (2.1%) in the third quarter of 2001 as compared to the third quarter of 2000. The increase in 2001 resulted primarily from expansion of our operations in the area of managing rental properties for affiliates and others. In particular, in August 2000, we began providing leasing and management services to Carr Office Park, L.L.C. Revenues from other operations for the nine months ended September 30, 2001 increased \$2.9 million (26.4%) from the same period in 2000 for the same reason.

Expenses of our other operations decreased \$1.2 million (11.2%) in the three months ended September 30, 2001 compared to the three months ended September 30, 2000. The decrease was due primarily to our completion of portions of our internal process improvement efforts. For the nine months ended September 30, 2001, expenses of our other operations increased \$3.6 million (12.2%) from the same period in 2001 primarily due to our expanded property management operations and professional fees associated with internal process improvement efforts and other initiatives.

Interest expense decreased \$2.9 million (24.2%) during the third quarter of 2001 compared to the third quarter of 2000 due primarily to lower debt levels partially offset by a decrease in capitalized interest due to a lower level of development activity. Interest expense decreased \$10.4 million (26.6%) for the first nine months of 2001 compared to the first nine months of 2000 for the same reasons.

During the second quarter of 2001, one of our strategic partners, Broadband Office, Inc. filed for Chapter 11 bankruptcy protection. The bankruptcy of Broadband Office, Inc. had no material impact on our operating results nor our strategic plan. Broadband Office, Inc. had provided some telecommunications related services to us. We arranged with other providers for the same services with no significant impact on our business.

We also have retained a significant equity investment in HQ Global. FrontLine Capital Group ("FrontLine"), the majority stockholder of HQ Global, recently announced that HQ is in default with respect to certain covenant and payment obligations under its senior and mezzanine indebtedness. FrontLine also reported that, effective as of October 1, 2001, HQ Global entered into an agreement with its senior loan lenders under which these lenders agreed not to enforce the remedies they now have as a result of HQ Global's default. This forbearance period is scheduled to terminate on December 14, 2001, or earlier under certain circumstances (including the termination, if earlier, of the forbearance period relating to HQ's mezzanine indebtedness which is scheduled to terminate no later than December 31, 2001). During this period, HQ Global can still draw funds under the senior credit agreement for working capital needs and to make interest payments to these lenders. At the end of the forbearance period, if HQ Global has not paid in full all amounts due and owing to the lenders, or if HQ has not cured all of its existing defaults, then the lenders may immediately exercise any rights and remedies available to them.

HQ Global is in active negotiations with its lenders regarding the restructuring of its long-term indebtedness, with an objective of reaching an agreement on terms that will provide HQ Global with sufficient liquidity to operate its business through the current economic downturn. There can be no assurance that HQ Global will be able to restructure its indebtedness. Depending on the outcome of HQ Global's discussions with its lenders, we may be required to write-off some or all of our remaining \$42.2 million investment in HQ Global.

Depreciation and Amortization

Depreciation and amortization increased \$2.4 million (7.6%) in the third

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quarter of 2001 compared to the third quarter of 2000. This increase was due primarily to development properties being placed into service partially offset by

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Management's Discussion and Analysis

dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C. For the nine months ended September 30, 2001, depreciation and amortization increased \$1.0 million (1.0%) from the same period a year ago for the same reasons.

Gain on Sale of Assets and Other Provisions, Net

We dispose of assets that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. The proceeds from the sales are redeployed into other properties or used to fund development operations or to support other corporate needs. During the three months ended September 30, 2001, we disposed of a parcel of land held for development. During the three months ended September 30, 2000, we disposed of one operating property, exclusive of the properties contributed to Carr Office Park, L.L.C. We recognized a gain of \$0.1 million, net of \$0.8 million in income taxes, on this property.

On August 17, 2000, we closed on a joint venture with New York State Teachers' Retirement System ("NYSTRS"). At closing, we and some of our affiliates contributed properties to the joint venture, Carr Office Park, L.L.C., and NYSTRS contributed cash. We recognized a gain on the partial sale of approximately \$20.1 million, net of income taxes of \$13.1 million.

During the nine months ended September 30, 2001, we disposed of seven operating properties, one property under development and three parcels of land held for development. We recognized a gain of \$4.0 million, net of taxes of \$2.0 million. We also recognized an impairment loss of \$0.9 million on a parcel of land held for development during the nine months ended September 30, 2001. During the nine months ended September 30, 2000, we disposed of six operating properties, exclusive of the properties contributed to Carr Office Park, L.L.C. We recognized a gain of \$7.8 million, net of taxes of \$1.3 million on these properties.

Consolidated Cash Flows

Consolidated cash flow information is summarized as follows:

(in millions)	For the nine months ended	
	September 30,	
	2001	2000
Cash provided by operating activities	\$ 143.9	\$ 155.8
Cash provided by investing activities	127.5	518.9
Cash used by financing activities	(287.2)	(706.1)

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Operations generated \$143.9 million of net cash in 2001 compared to \$155.8 million in 2000. The changes in cash flow from operating activities were primarily the result of factors discussed above in the analysis of operating results. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses, including in 2001, income taxes relating to sales of certain assets and discontinued operations in 2000.

Our investing activities provided net cash of \$127.5 million in 2001 and \$518.9 million in 2000. The decrease in net cash provided by investing activities in 2001 is due primarily to the fact that in 2000, we sold our investment in HQ Global, generating \$377.3 million of cash. Proceeds from sales of properties were also higher in 2000 (\$223.8 million) due primarily to the Carr Office Park, L.L.C. transaction. The effect of the decreases on net cash provided by investing was partially offset by a reduction in development activities (\$62.3 million), a receipt of a distribution from Carr Office Park, L.L.C. from proceeds of a third party financing of properties (\$77.9 million) and a release of restricted deposits (\$38.3 million).

Our financing activities used net cash of \$287.2 million in 2001 and \$706.1 million in 2000. The decrease in net cash used by financing activities in 2001 is due primarily to lower repayments on unsecured credit facilities (\$305.5 million) and increased proceeds from new mortgage debt (\$26.6 million). In addition, we repaid \$150.0 million in senior unsecured notes in 2000. The effect of these changes was partially offset by increased stock repurchase activities (\$58.9 million) and increased mortgage repayments (\$13.7 million) in 2001.

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Management's Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

We seek to create and maintain a capital structure that will enable us to diversify our capital resources. This should allow us to obtain additional capital from a number of different sources. These sources could include additional equity offerings of common stock and/or preferred stock, public and private debt financings and possible asset dispositions. Our management believes that we will have access to the capital resources necessary to expand and develop our business, to fund our operating and administrative expenses, to continue to meet our debt service obligations, to pay dividends in accordance with REIT requirements, to acquire additional properties and land and to pay for construction in progress.

We have three investment grade ratings. As of September 30, 2001, Duff & Phelps Credit Rating Co. and Standard & Poors have each assigned their BBB rating to our prospective senior unsecured debt offerings and their BBB- rating to our prospective cumulative preferred stock offerings. Moody's Investor Service has assigned its Baa2 rating to our prospective senior unsecured debt offerings and its Ba2 rating to our prospective cumulative preferred stock offerings.

Our total debt at September 30, 2001 was approximately \$1.1 billion, of which \$114.0 million (10.3%) bore a LIBOR-based floating interest rate. The interest rate on borrowings on our unsecured credit facility at September 30, 2001 was 3.3%. The interest rate of the unsecured credit facility is 70 basis points over 30-day LIBOR. Our fixed rate mortgage payable debt bore an effective weighted average interest rate of 8.04% at September 30, 2001. The weighted average term of this debt is 6.5 years. At September 30, 2001, our debt

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represented 31.2% of our total market capitalization of \$3.6 billion.

In June 2001, we closed on a new three-year \$500 million unsecured credit facility with J.P. Morgan Chase, as agent for a group of banks. We can extend the life of the line an additional year at our option. The line carries an interest rate of 70 basis points over 30-day LIBOR. The new credit facility has substantially similar terms as our previous facility. As of September 30, 2001, \$114.0 million was drawn on the credit facility, \$1.9 million in letters of credit were outstanding and we had \$384.1 million available for borrowing.

Rental revenue and real estate service revenue have been our principal sources of cash to pay our operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. We believe that our current sources of revenue will continue to provide the necessary funds for our operating expenses and debt service.

We and our affiliates also require capital to invest in our existing portfolio of operating assets for capital projects. These capital projects include such things as large-scale renovations, routine capital expenditures, deferred maintenance on properties we have recently acquired and tenant related matters, including tenant improvements, allowances and leasing commissions. We believe that operations along with borrowings under our credit facility will continue to provide the necessary funds for these capital projects.

We will require capital for development projects currently underway and in the future. As of September 30, 2001, we had approximately 0.2 million square feet of office space in two development projects in progress. Our total expected investment on these projects is \$24.1 million. Through September 30, 2001, we had invested \$14.2 million or 58.9% of the total expected investment for these projects. As of September 30, 2001, we also had 1.4 million square feet of office space under construction in six projects in which we own minority interests. These projects are expected to cost \$357.9 million, of which our total investment is expected to be approximately \$107.8 million. Through September 30, 2001, approximately \$164.4 million or 45.9% of total project costs had been expended on these projects. We have financed our investment in projects under construction at September 30, 2001 primarily from the proceeds of asset dispositions and borrowings under our credit facility. We expect that these sources and project-specific financing of selected assets will provide additional funds required to complete the development and to finance the costs of additional projects.

In the future, if the debt and equity markets are not favorable, if we cannot raise the expected funds from the sale of properties and/or if we are unable to obtain capital from other sources, we believe that we would continue to have sufficient funds to pay our operating and debt service expenses, our regular quarterly dividends, to make necessary routine capital improvements with respect to our existing portfolio of operating assets, and to continue to fund all of our current development projects. However, our ability to expand our development activities or fund additional development in our joint ventures could be adversely affected if it is necessary for us to access either the public equity or debt markets at a time when those markets may not be the best source of capital for us.

Management's Discussion and Analysis

Our Board of Directors has authorized us to spend up to \$325 million to repurchase our common shares, preferred shares, and debt securities. Since the start of this program in mid-2000 through September 30, 2001, we have acquired

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approximately 7.2 million common shares for \$209.4 million, representing an average price of \$28.94 per share.

We pay dividends quarterly. Funds, which we accumulate for distribution, are invested primarily in short-term investments collateralized by securities of the United States Government or one of its agencies.

Funds From Operations

We believe that funds from operations is helpful to investors as a measure of the performance of an equity REIT. Based on our experience, funds from operations, along with information about cash flows from operating activities, investing activities and financing activities, provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

- * Net income (loss) - computed in accordance with generally accepted accounting principles (GAAP);
- * Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
- * Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- * Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Our funds from operations may not be comparable to funds from operations reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than us. Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

The following table provides the calculation of our funds from operations for the periods presented:

(In thousands)	Three Months Ended September 30,	
	2001	2000
Net income from continuing operations before minority interest	\$ 31,699	\$ 53,657
Adjustments to derive funds from operations:		
Add depreciation and amortization	34,227	31,739
Deduct:		
Minority interests' (non Unitholders) share of depreciation, amortization and net income	(213)	(248)
Loss (gain) on sale of assets and other provisions, net	(28)	(20,182)
	65,685	64,966
Funds from operations before allocations to the minority Unitholders		
Less: Funds from operations allocable to the minority Unitholders	(4,596)	(4,000)
	61,089	60,966
Funds from operations allocable to CarrAmerica Realty Corporation		
Less: Preferred stock dividends	(8,655)	(8,842)

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Funds from operations attributable to common shareholders	\$ 52,434	\$ 52,124
	=====	=====

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our, and our affiliates, or the industry's actual results,

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Management's Discussion and Analysis

performance, achievements or transactions to be materially different from any future results, performance, achievements or transactions expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- * National and local economic, business and real estate conditions that will, among other things, affect:
 - * Demand for office properties
 - * The ability of the general economy to recover timely from the current economic downturn
 - * Availability and creditworthiness of tenants
 - * Level of lease rents
 - * Availability of financing for both tenants and us;
- * Adverse changes in the real estate markets, including, among other things:
 - * Competition with other companies
 - * Risks of real estate acquisition and development
 - * Failure of pending acquisitions to close and pending developments to be completed on time and within budget;
- * Actions, strategies and performance of affiliates that we may not control or companies in which we have made investments;
- * Governmental actions and initiatives; and
- * Environmental/safety requirements.

For further discussion of these and other factors that could impact our future results, performance, achievements or transactions, see the documents we file from time to time with the Securities and Exchange Commission, and in particular, the section titled "The Company - Risk Factors" in our Annual Report on Form 10-K.

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Quantitative and Qualitative Disclosures About Market Risk

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Any significant changes in our market risk that have occurred since the filing of our Annual Report on Form 10-K for the year ended December 31, 2000 are summarized in the Liquidity and Capital Resources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Part II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

15 Letter from KPMG LLP, dated November 13, 2001.

(b) Reports on Form 8-K

Current Report on Form 8-K filed on August 3, 2001 regarding certain supplemental data included in the Company's press release dated August 3, 2001.

Current Report on Form 8-K filed on September 26, 2001 regarding the effect of terrorist attacks of September 11, 2001, a tax disclosure and litigation disclosure regarding a summary judgement of September 12, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARRAMERICA REALTY CORPORATION

/s/Richard F. Katchuk

Richard F. Katchuk, Chief Financial Officer

/s/ Stephen E. Riffie

Stephen E. Riffie, Senior Vice President, Controller and Treasurer
(Principal Accounting Officer)

Date: November 13, 2001